

WATER/ABJ/DON:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4380

March 13, 2003

R E S O L U T I O N

**(RES. W-4380), ARROYO CENTER WATER COMPANY (ACWC).
ORDER AUTHORIZING AN INCREASE IN RATES
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$ 44,100
OR 122% PER YEAR FOR FIVE YEARS TO COMPLY WITH THE
SAFE DRINKING WATER ACT.**

SUMMARY

By Advice Letter 17 filed on December 6, 2002, ACWC seeks an increase in rates for water service to recover the cost of complying with Monterey County Department of Environmental Health's (MCDEH's) requirements of complying with the Federal Safe Drinking Water Act, which requires installation of a disinfection and filtration system (system) on its surface water sources of water supply. This resolution grants a rate increase in gross annual revenues of \$44,100 or 122% per year for five years to pay for the ordered improvements.

BACKGROUND

In order to build a filtration/disinfection system required by federal law, ACWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$44,100 or 122% per year for five years. If authorized, ACWC's request will result in each customer paying a flat rate charge of \$571.80 per year remaining constant and an additional \$700 per year special assessment for five years producing \$44,100 per year for a five-year total of \$220,500. ACWC serves approximately 63 flat rate customers in the community of Arroyo Seco, near Greenfield, Monterey County. Each customer now pays a flat rate charge of \$571.80 for water service. The additional special assessment of \$700 per year represents an annual rate increase (for five years) of 122%. Assuming no

subsequent rate increases are authorized by the Commission, after five years, each customer's water charge will revert to the \$571.80 annual flat rate fee.

The last general rate increase became effective on January 6, 2000, pursuant to Resolution W-4183, which authorized a rate increase of \$2,585 or 7.7% for test year 2000 and a rate of return of 13.25%. There have been no additional rate increases for ACWC since the last GRC.

DISCUSSION

The MCDEH is requiring ACWC to comply with the Federal Surface Water Treatment Rule (SWTR). ACWC retained an Engineer who determined a Filtration and Disinfection Facility would comply with the SWTR. Staff of the MCDEH confirmed that ACWC's proposal could meet the requirements of the SWTR. MCDEH will require ACWC to submit a further Application for approval after they have hired an Engineer to complete the final design of the facility. Water Division staff verified ACWC's attempts to borrow the money required for the project from the SDWBA fund, from the Small Business Administration, and others. All such attempts were unsuccessful.

The stockholders of ACWC, at their Annual Meeting in May 2002, determined that an assessment of \$700 per year per customer for five years would produce enough capital to design and build the filtration and disinfection facility. Additional storage and booster pumps would also be constructed. There is a need for additional work to be done in renovating and/or replacing distribution system mains. If the amount collected for the filtration system exceeds or is less than the final contract amount, adjustments will be made to the cost of renovation or replacement of mains project to absorb the difference.

Special Requirements

To ensure adequate accountability of the Surcharge amounts, the following provisions shall be complied with by ACWC:

1. ACWC shall deposit all surcharge amounts into a separate bank account. All disbursements related to the Filtration and Disinfection Facility and additional storage, booster pumps and renovation and/or replacement of portions of the existing distribution system would also be paid from this special account.

2. The surcharge amount shall be separately identified on customer's bills. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes.
3. The surcharge should not be commingled with other utility revenues or charges.
4. To the extent that the funds would be used for construction of new facilities, ACWC shall comply with any applicable environmental regulations for any capital improvement undertaken.
5. ACWC should acquire approval of the construction project from all local, state, and federal agencies having approval responsibilities.

NOTICE

A notice of the proposed rate was mailed to each customer on March 26, 2002. The Water Division (Division) received one letter protesting the rate increase. The Consumer Affairs Branch received one complaint in the past year. The complaint is from the same person who wrote the letter protesting the rate increase and she is concerned the proposed facility will not provide safe, healthy water. The Division and the MCDEH have considered the points raised by the protestant and MCDEH has physically examined the watershed to determine if certain pollution sources are present and if certain chemicals are in the water. MCDEH concludes that, except for the SWTR, essentially all health standards are being met by ACWC. Therefore, Division and MCDEH conclude that the protest letter and complaint are not substantiated in light of the need to comply with the SWTR.

FINDINGS

1. The Monterey County Department of Environmental Health (MCDEH) is requiring ACWC to comply with the SWTR.
2. ACWC retained an Engineer who determined a Filtration and Disinfection Facility would comply with the SWTR.
3. Staff of the MCDEH confirmed that ACWC's proposal could meet the requirements of the SWTR.
4. The stockholders of ACWC, at their Annual Meeting in May 2002, determined that an assessment of \$700 per year per customer for five years would

produce enough capital to design and build the filtration and disinfection facility. Additional storage and booster pumps would also be constructed.

5. Additional work needs to be done in renovating and/or replacing distribution system mains. If the amount collected for the filtration system exceeds or is less than the final contract amount, adjustments will be made to the cost of the renovation or replacement of mains project to absorb the difference.
6. The Commission finds, after investigation by the Water Division, that the rate increase hereby authorized is justified, and the resulting rate is just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Arroyo Center Water Company is authorized, five days after the effective date herein, to make effective the revised rate Schedule No. 2, Annual General Flat Rate Service, attached to Advice Letter 17, and to concurrently cancel the presently effective rates.
2. Arroyo Center Water Company is ordered to comply with the requirements stated in the body of this Resolution, under "Special Requirements" in the Discussion Section.
3. Arroyo Center Water Company is directed to maintain a balancing account as required by Public Utilities Code Section 792.5.
4. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 13, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH

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GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners